

# CF5

## Certificate in Financial Planning

### Unit 5 – Integrated financial planning

April 2011 examination

#### SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2010/2011, unless stated otherwise and should be answered accordingly.

Assume all individuals are domiciled, resident and ordinarily resident in the UK unless stated otherwise.

Candidates should answer based on the legislative position immediately BEFORE the 2011 budget.

#### Instructions

- Two hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handing in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**



# Unit CF5 – Integrated financial planning

## Instructions to candidates

### Read the instructions below before answering any questions

- **Two hours** are allowed for this paper which carries a total of 100 marks.
- You are advised to spend approximately 60 minutes on each question. You are strongly advised to attempt **all** parts of each question in order to gain maximum possible marks for each question. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- You have been provided with a **product list** on pages 8 to 11 which you should use when answering **question 2**. You may also find it helpful to use the **tax tables** on pages 12 to 15 when answering both questions.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show all steps in a calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Answer each question on a new page and leave six lines blank after each question part.

**Subject to providing sufficient detail you are advised to be as brief and concise as possible, using note format and short sentences on separate lines wherever possible.**

**Attempt ALL questions**

**Time: 2 hours**

**You are advised to spend no more than approximately:**

**60 minutes on question 1**

**60 minutes on question 2**

**You are advised to take into account the number of marks allocated to each question part when deciding how long to spend on each part.**

**Question 1**

You are authorised to conduct business under the Financial Services and Markets Act (FSMA) 2000 and are qualified to provide financial advice. The information provided is accurate and adequate for the purpose of these questions.

Read the following carefully, then carry out **ALL** of the tasks **(a), (b), (c), (d), (e)** and **(f)** which follow.

**INFORMATION**

George and Anita Green, aged 58 and 52 respectively, are married. They have grown up children who are financially independent.

George is a company director on a salary of £65,000 per annum. He is a member of the firm's final salary 60ths pension scheme, into which he pays 17% of his salary and his employer contributes a further 5%. If he retires at age 65, he will have been a member of the scheme for 35 years.

Anita works for a design agency on a salary of £35,000 per annum. She is a member of her employer's group personal pension (GPP) and intends to retire at her normal retirement age of 60. She has been told that there will be a penalty (Market Value Reduction) on taking benefits at age 60.

Anita has been told that when she retires she should take an open market option and would like to receive advice on the matter.

George and Anita jointly own a house with a current value of £250,000 and with an outstanding mortgage of £85,000 on a capital and interest repayment basis. They have no life insurance or other protection cover. They have been told to take out a whole of life policy or a joint life term assurance policy and have asked you to help them make a decision on which product would be suitable.

They have £50,000 invested in an investment bond, which they understand is a tax-free investment vehicle. They have been told by a friend that they should invest some of it in an ISA as these are more secure than other investments and are guaranteed by the government.

George and Anita have asked your advice on investment and mortgage protection.

## Questions

- (a) Write down a list of questions that you would want to ask George and Anita to obtain all the information required to enable you to advise them on their investment planning. *In order to gain marks, these questions should be written in question form in such a way that George and Anita will understand them.* (11)
- (b) Calculate, **showing all your workings**, the scheme pension income that George could receive, based on his current salary, at retirement at age 65. *Assume George is not taking a pension commencement lump sum.* (3)
- (c) Identify and explain any errors or inconsistencies that are contained in the case history. (10)
- (d) Explain to Anita in simple terms how an 'open market option' works and the benefits of using this facility. (4)
- (e) List **six** main differences between an onshore investment bond and an ISA. (12)
- (f) State the **advantages** and **disadvantages** to George and Anita of using a whole of life policy compared to a term insurance policy for mortgage protection. (10)

**Total marks available for this question: 50**

**Questions continue over the page**

## Question 2

You are authorised to conduct business under the Financial Services and Markets Act (FSMA) 2000 and are qualified to provide financial advice. The information provided is accurate and adequate for the purpose of these questions.

Read the following carefully, then carry out **ALL** of the tasks **(a)**, **(b)**, **(c)** and **(d)** which follow.

### INFORMATION

Henry Ball is a self-employed dental surgeon working in private practice with no National Health Service (NHS) patients. He draws £80,000 per annum. He is married to Victoria who works as an employed Chiropodist earning £27,000 per annum. They have two children, Kate and Tom, aged eight and nine respectively.

Henry was a member of the NHS final salary pension scheme for 15 years but he left the NHS to start a private practice three years ago and since that time he has contributed to a personal pension. Henry has been advised, by a friend, to put his money into ISAs and not pensions 'as pensions are a waste of time'. He is concerned about this advice and would like to have an explanation of the differences between personal pensions and ISAs.

Victoria pays £250 per month net into a personal pension. She has told you that she would like to maximise her contribution this tax year.

Following the death of Victoria's father they have inherited £350,000 after all taxes which is currently held in an instant access account with a building society. They plan to buy Henry a new car in seven months time which will cost £23,000 and they would like an emergency fund of at least £40,000. They paid off their mortgage two years ago and have no outstanding debts.

Henry and Victoria require a diverse and tax efficient portfolio. They want to invest 50% in low risk and 50% in medium risk products. They wish to preserve capital and require an income of £2,000 per annum from the portfolio to help fund the children's school fees. This income is to come from at least three different products but they have said they do not want any funds invested in Insurance Guaranteed Growth or Insurance Guaranteed Income Bond products because of the risk to capital. They have not used the current year ISA allowance.

## Questions

- (a) List **five** main differences between ISAs and personal pensions. (10)
- (b) (i) Recommend from the product list on pages 8 to 11 a portfolio of products that will meet Henry and Victoria's requirements, showing the amount to be invested in each product. Your portfolio should include the existing investments recently made by Henry and Victoria. State clearly in whose name each product is to be held. (9)
- (ii) Show how the portfolio recommended in (b)(i) above will generate the income that Henry and Victoria require and state clearly, in words, the tax treatment of each product that you have used to provide the income. (9)
- (c) For each of the product types you have selected in (b)(i) above, including non-income producing products, justify your recommendations under the following headings:
- the amount of the investment;
  - the risk profile of each investment;
  - the tax treatment of each investment. (18)
- (d) List **four** main points you would discuss with Henry and Victoria when you next visit them in 12 months' time to review their financial arrangements. (4)

**Total marks available for this question: 50**

## PRODUCT LIST

### This list to be used in answering question 2.

The products included in this list are to be used when recommending lump sum/single premium products to meet assessed client needs. Although the list is not exhaustive, it does provide the candidate with considerable choice and should be considered adequate for the task in hand. The details provided are either factual, e.g. National Savings and Investments Products, or fictitious products based on real examples, e.g. the list of unit trust/OEIC funds and their yields. AER means annual equivalent rate.

#### 1. Bank and Building Society Accounts – UK

	Gross yield/AER
AnyBank High Interest Cheque Account (min £1)	0.50%
AnyBank Deposit Account (min £10)	0.90%
Shires Building Society Postal Account (Min £5,000)	1.80%
Shires Building Society 90 Day Notice (min £10,000)	1.95%
AnyBank 60 Day Account (min £15,000)	1.70%
Other Bank 1 Year Account (min £10,000)	3.90%
Other Bank Internet Account (min £1,000)	2.20%

#### 2. Bank and Building Society Offshore Accounts – Jersey based

	Gross yield/AER
Other Bank Super Deposit Account (min £15,000)	1.75% (paid gross)
Shires Building Society Offshore Deposit (min £20,000)	1.40% (paid gross)
AnyBank Island Account (min £5,000)	1.50% (paid gross)

#### 3. ISAs Cash Component

	Term	Gross yield/AER	Investment Minimum £
AnyBank	No notice	2.60%	1
A & G	No notice	2.05%	1
Axis Insurance	No notice	2.30%	1,000
NS ISA	No notice	2.50%	100
Shires Building Society	30 Day	2.95%	1,000

4. **Unit trusts and OEICs –  
for ISA Stocks and Shares Components and for Direct Investment outside ISAs**

		<b>Gross yield</b>
AnyBank	UK Equity Income	1.8%
	UK Gilts	2.0%
	International Equity	1.0%
A & G	UK Equity Income	5.2%
	UK Corporate Bond	5.0%
	UK Gilts	3.3%
	UK Equity Environment	1.0%
Eagle	UK Equity Growth	0.8%
	UK Smaller Companies	0.6%
	UK Gilts	4.9%
	Europe Equity	0.3%
	US Equity	0.1%
	Far East Equity	0.0%
	Technology	0.0%
Trust Insurance	UK Equity Income	2.8%
	UK Index Tracker	1.6%
	Europe Equity	0.3%
	International Equity	0.5%
	Fund of Funds	1.5%
	Property	1.0%

**OEICs for ISA Stocks and Shares Components and for Direct Investment outside ISAs**

		<b>Gross yield</b>
Axis Insurance	UK Equity Income	1.4%
	UK Equity Growth	0.7%
	UK Corporate Bonds	4.8%
	International Equity	0.6%
Professional	UK Index Tracker	1.8%
	UK Recovery	1.0%
	UK Gilts	4.0%
	International	0.0%

**Note:** Share exchange facilities are available.  
Both INCOME AND ACCUMULATION units are available.

## 5. National Savings and Investments (NS&I)

	Gross yield
Investment Account (£20 to £1,000,000)	Note (i)
Income Bond (£500 to £1,000,000)	Note (ii)
* Children's Bonus Bond (£25 to £3,000)	2.50%
*ISA Note (iii)	2.50%

- Note (i) 0.20% gross paid on holdings under £25,000  
0.30% gross paid on holdings of £25,000 or more
- Note (ii) 1.45% gross paid on holdings under £25,000  
1.75% gross paid on holdings of £25,000 or more
- Note (iii) Minimum investment £100

(\*Tax free)

## 6. Insurance guaranteed income bonds

Note to candidates: these are insurance-based products, rather than derivatives-based or so-called "precipice bonds."

	Yield net of basic rate tax
Trust Insurance 1 year income bond	1.90% (rate guaranteed)
Invicta Insurance 3 year income bond	2.00% (rate guaranteed)
Trust Insurance 4 year income bond	2.10% (rate guaranteed)
Axis Insurance 5 year income bond	2.30% (rate guaranteed)

## 7. UK Insurance bonds – Unit linked

Invicta Insurance Managed
Invicta Distribution Fund
Axis Insurance UK Equity Growth
Axis UK fixed interest
Axis Insurance Property
Sea Life Pacific
Sea Life North American
Arrow Life European
Arrow International Equity

8. **With-profits bonds**

Arrow Life With-profits Bond
Celtic Mutual With-profits Bond
Axis Provident With-profits Bond

9. **Pension Funds**

	<b>Stakeholder</b>
Trust Pensions UK Tracker Fund	✓
Trust Pensions Managed Fund	✓
Invicta Pensions UK Equity Fund	-
Celtic Mutual UK Fixed Interest Fund	✓
Celtic Mutual Emerging Markets Fund	-
Axis With-Profits Fund	-

10. **Child Trust Fund - Deposit Based**

	<b>Gross Yield</b>
Any Bank	1.0%
Axis Insurance	0.8%

**Child Trust Fund - Stocks & Shares**

	<b>Gross Yield</b>
Eagle/UK Equity Growth	0.8%
Trust Insurance Europe Equity	0.3%
Flushing American	0.6%

**Stakeholder Child Trust Fund Accounts**

Shires	Stakeholder Account
A & G	Stakeholder Account

# INCOME TAX

RATES OF TAX	2009/2010	2010/2011
Starting rate for savings*	10%	10%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	N/A	50%
Starting-rate limit	£2,440*	£2,440*
Threshold of taxable income above which higher rate applies	£37,400	£37,400
Threshold of taxable income above which additional rate applies	N/A	£150,000

\*restricted to savings income only and not available if taxable non-savings income exceeds starting rate band.

## MAIN PERSONAL RELIEFS

Income limit for Personal Allowance §	N/A	£100,000
Personal Allowance (basic) §	£6,475	£6,475
Personal Allowance (age 65-74) §	£9,490	£9,490
Personal Allowance (aged 75 and over) §	£9,640	£9,640
Married/civil partners (minimum) at 10% †	£2,670	£2,670
Married/civil partners (age 75 and over) at 10%	£6,965	£6,965
Income limit for age-related allowances	£22,900	£22,900
Blind person's allowance	£1,890	£1,890
Enterprise Investment Scheme relief limit at 20%	£500,000	£500,000
Venture Capital Trust relief limit at 30%	£200,000	£200,000

§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age from 2010/2011

† where at least one spouse/civil partner was born before 6 April 1935.

Child Tax Credit (CTC)		
- family element	£545	£545
- family element baby addition	£545	£545
CTC usually reduced by 6.67% of joint income over	£50,000	£50,000

## NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£97	£421	£5,044
Primary threshold	£110	£477	£5,715
Upper Earnings Limit (UEL)	£844	£3,656	£43,875
Upper Accruals Point	£770	£3,337	£40,040

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS	
	Contracted-in rate	Contracted-out rate
Up to 110.00*	Nil	Nil
110.01 – 770.00	11%	9.4%
770.01 – 844.00	11%	11%
Above 844.00	1%	1%

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS		
	Contracted-in rate	Contracted-out rate	
		<i>Final salary</i>	<i>Money purchase</i>
Below 110.00**	Nil	Nil	Nil
110.01 – 770.00	12.8%	9.1%	11.4%
770.01 – 844.00	12.8%	12.8%	12.8%
Excess over 844.00	12.8%	12.8%	12.8%

\* This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £97 per week. This £97 to £110 band is a zero rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. Basic State Pension.

\*\* Secondary earnings threshold.

<b>Class 2 (self-employed)</b>	Flat rate per week £2.40 where earnings exceed £5,075 per annum.
<b>Class 3 (voluntary)</b>	Flat rate per week £12.05
<b>Class 4 (self-employed)</b>	8% on profits between £5,715 - £43,875 plus 1% on profits above £43,875

## PENSIONS

TAX YEAR	LIFETIME ALLOWANCE	ANNUAL ALLOWANCE
2006/2007	£1,500,000	£215,000
2007/2008	£1,600,000	£225,000
2008/2009	£1,650,000	£235,000
2009/2010	£1,750,000	£245,000
2010/2011	£1,800,000	£255,000

### NOTIONAL EARNINGS CAP

£123,600 – (For schemes that require post-1989 benefits to be still subject to a cap).

### ANNUAL ALLOWANCE CHARGE

40% member's tax charge on the amount of total pension input in excess of the annual allowance.

### LIFETIME ALLOWANCE CHARGE

55% of excess over lifetime allowance if taken as a lump sum.

25% of excess over lifetime allowance if taken in the form of income, which is subsequently taxed under PAYE.

# INHERITANCE TAX

RATES OF TAX ON DEATH		2009/2010	2010/2011		
Transfers made after 5 April 2010					
- Up to £325,000		Nil	Nil		
- Excess over £325,000		40%	40%		
- Lifetime transfers to and from certain trusts		20%	20%		
<b>MAIN EXEMPTIONS</b>					
Transfers to					
- UK-domiciled spouse/civil partner		No limit	No limit		
- non-UK-domiciled spouse/civil partner (from UK domiciled spouse)		£55,000	£55,000		
- UK-registered charities		No limit	No limit		
Lifetime transfers					
- annual exemption per donor		£3,000	£3,000		
- small gifts to same person		£250	£250		
Wedding/civil partnership gifts by					
- parent		£5,000	£5,000		
- grandparent/party to marriage/civil partnership		£2,500	£2,500		
- other person		£1,000	£1,000		
100% relief: businesses, unlisted/AIM companies, certain farmland/building					
50% relief: certain other business assets					
Reduced tax charge on gifts within 7 years of death:					
- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%

# MAIN SOCIAL SECURITY BENEFITS

		2009/2010	2010/2011
		£	£
Child Benefit	first child	20.00	20.30
	subsequent children	13.20	13.40
Incapacity Benefit	short-term lower rate*	67.75	68.95
	short-term higher rate*	80.15	81.60
	long-term rate	89.80	91.40
Attendance Allowance	lower rate	47.10	47.80
	higher rate	70.35	71.40
Retirement Pension	single	95.25	97.65
	married	152.30	156.15
Pension Credit	single person standard minimum guarantee	130.00	132.60
	married couple standard minimum guarantee	198.45	202.40
	maximum savings ignored in calculating income	6,000.00	10,000.00
Bereavement Benefit (lump sum)		2,000.00	2,000.00
Widowed Parent's allowance		95.25	97.65
Jobseekers Allowance		64.30	65.45

\* under State Pension Age

# CAPITAL GAINS TAX

## RATES OF TAX

Chargeable gains, less allowable losses, are charged to tax as follows from 23 June 2010:

- for individuals who are non-taxpayers or basic-rate taxpayers, the rate chargeable is 18%.
- for individuals who are higher-rate taxpayers or additional-rate taxpayers, the rate chargeable is 28%.
- for trustees of trusts and personal representatives the rate chargeable is 28%.
- Entrepreneurs' Relief reduces the rate to 10% on qualifying assets subject to a lifetime limit of £5,000,000.

## ANNUAL EXEMPTION

- The annual exemption is £10,100.
- Most trusts have an annual exemption of £5,050.

## CHATELS EXEMPTION

- Gains on chattels are exempt if proceeds do not exceed £6,000 per item.

# CORPORATION TAX

	2009/2010	2010/2011
Full rate	28%	28%
Small companies rate	21%	21%
Small companies limit	£300,000	£300,000
Effective marginal rate	29.75%	29.75%
Upper marginal limit	£1,500,000	£1,500,000

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